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Forum

Neopopulism and the New Agriculture

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Just prior to the November 1986 elections for the United State Congress, an organization called the "New Populist Forum" announced itself under the banner of "Saving the Heartland." What was unusual about the group, in the pre-election season, was not that it sought to politicize the farm issue, which had been running at high tide as a result of export losses and plummeting land values throughout the American midwest. What was unusual, given its populist identity and avowed purpose, was that the New Populist Forum arose from the traditional target of populist rhetoric: Washington itself. One of its founders, Senator Tom Harkin of Iowa, (together with Congressman Lane Evans and Texas agriculture commissioner Jim Hightower) has for several years promoted a plan in Congress to raise the level of farm price supports and to impose mandatory controls on production. The "Harkin Plan," as it has become known, is the major Neopopulist alternative to current farm policy. Because of the similarities in Neopopulist political activities in North America and Australia, this article considers the role of Neopopulism in American agriculture.

Without irony, the September 1986 announcement declared the New Populist Forum "a Washington-based organization dedicated to tipping the balance of power toward average citizens, changing the government policies in favor of common sense and common men and women, and securing economic opportunities for all". It went on to say that it was "rooted in the economic ideas of 100 years ago", and "works with the Congressional Populist Caucus", as well as "local progressive populist officeholders", "grass roots activists", and "organizers around the country whose vision it shares".

Because our own roots are in Wisconsin, the birthplace of the Progressive Party — a close cousin to Populism — we began to reflect on the meaning of Neopopulism for the future of American agriculture. What relevance do populist ideas have for today's farmer? How

is the farmer's situation similar to that of 100 years ago, and how is it different? Because our research as agricultural economists is on renewing American agricultural competitiveness in an international context, we wondered: what does Neopopulism say to the New Agriculture of the late 20th Century?

Populism and Neopopulism

Populism is a mutable concept. From the agrarian populism of late 19th century America to the *narodniki* of revolutionary Russia, no single unifying set of ideas can be found. Contradictions abound. In her 1981 *Populism*, Margaret Canovan wrote that:

intellectuals, peasants of various types, and commercial farmers characteristically have produced different kinds of populism, intelligibly related to their social and economic situations but not reducible to a common core (Canovan 1981).

An illustration of one contradiction in American agricultural populism is ambivalence toward government, captured in the tension between a "Washington based" New Populist Forum dedicated to "grass roots interests". This ambivalence also characterizes the Harkin Plan, which calls on farmers to hold referenda on mandatory production controls for their commodities. A corn or wheat farmer would vote on the issue for corn and wheat, and a soybean farmer for soybeans. If a majority voted yes, then production would be controlled at a level sufficient to force prices to 70 per cent of "parity", about twice current world market levels. Like raising a column of water, prices would be driven to these target levels by narrowing the base of the column. On the one hand, direct democracy would be preserved by referendum; on the other hand, mandatory controls become a form of Orwellian *diktat*,

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what one liberal critic (writing in the *New Republic*) called the "wheat police".

An additional tension is that populist programs in agriculture invariably call for extensive government intervention in the economy on behalf of people who already own large amounts of property. As Canovan (1981, p. 104) wrote:

In terms of ordinary Right-Left distinctions this seems confusing, for it has often been assumed that the natural allies of state intervention will be those who possess no property and have nothing to lose. Commercial farmers, however, insofar as they are dependent upon market forces over which they have no more control than they have over the weather, tend to welcome a good deal of government protection, in spite of their determination to remain autonomous on their own land. The situation of the modern European small farmer, protected from the risks of agricultural production by the umbrella of the European Community's Common Agricultural Policy, is typical of this development.

Despite these and other political contradictions, American farm populism can be largely explained in terms of three key social and economic forces. These are (1) instability arising from international markets; (2) deflationary price movements; and (3) financial stress. In this respect, strong parallels unite the populism of yesterday and today.

Instability in International Markets

In its current form, Neopopulism is closely tied to the larger debate over protectionism and America's slipping export position in international markets. The Harkin Bill, like the European Common Agricultural Policy, is essentially an inward-looking program for agriculture, in which the primary objective of mandatory controls is to force up agricultural prices for domestic consumption while insulating domestic production from international competition. Requiring roughly 140 million acres, at current estimates, to be retired from production, it would attempt to seal off American farm prices from the vagaries of world markets. This insulation is in reaction to increases in farm price instability resulting from the agricultural trading system. The U.S. benefited enormously from this system in the 1970s as its export markets grew, but it has suffered from the abrupt reversal in exports since 1980-81. This decline is largely attributable to previously high U.S. price supports and the strong dollar.

In recent research, we uncovered an apparent puzzle: while instability of

international prices has remained essentially constant from year to year during the 1970s and 1980s, instability in U.S. farm prices and incomes has increased substantially. International price trends for wheat, corn and soybeans over the period from 1965/66 to 1984/85 show no significant upward trend in price instability for any of these commodities, no matter how one treats the aberrant price fluctuations of the early 1970s. At the same time, United States farm price and income instability has increased substantially. In wheat, farm price instability increased by 107.9 per cent as measured by the coefficient of variation around trend (CVT) in nominal terms and by 159.1 per cent in real terms from the 1960s (1962-1971) to the 1970s and early 1980s (1971-83). In corn, farm price instability increased 176.6 per cent in nominal terms and 262.5 per cent in real terms over the same period. In soybeans, the nominal increase was 152.2 per cent and the real increase 164.0 per cent. All of these increases, estimated for domestic farm prices and income according to Piggot's method, are highly statistically significant. They contrast with the statistically insignificant year to year changes in international price instability (Myers and Runge 1985).

When the sources of United States domestic instability were divided into supply and demand side components, clear shifts in each market in the direction of increased demand side instability were found over time. These shifts were relatively insensitive to demand elasticity assumptions, ranging from -0.3 to -1.1 . It is inescapable that most of the United States demand shifts during the 1970s and 1980s originated from the export rather than the domestic component of demand. Moreover, supply interruptions, such as those caused by weather, are of lesser importance as a cause of instability in this period than popularly assumed.

One plausible interpretation is that instability in the international marketplace has increased less than in the United States marketplace due to the changing structure of the U.S. farm economy and U.S. agricultural policy. Increased "openness" resulting from increased agricultural trade dependence can cause a greater proportion of international market instability to be reflected in domestic farm prices and incomes. This interpretation is supported by the increased proportions of

U.S. wheat, corn and soybeans traded internationally. From 1962-71, an average of 49.5 per cent of U.S. wheat, 13.0 per cent of U.S. corn and 31.1 per cent of U.S. soybeans flowed into international trade. By 1971-83, this proportion had increased to 58.4 per cent for wheat, 27.0 per cent for corn, and 39.4 per cent for soybeans. In addition, adjustments in U.S. farm commodity programs have permitted U.S. farm prices to reflect world market conditions more fully in recent years. Additional specialization in export crop production occurred in U.S. agriculture, further strengthening the link between international markets and the domestic farm economy. The land area planted to wheat, corn, and soybeans increased 54 per cent between 1970 and 1981. Furthermore, the proportion of total U.S. farm production value accounted for by these three export crops increased from 16 per cent to 24 per cent in the same period, a 50 per cent expansion (Runge and Houck 1987).

The increased openness of U.S. agriculture to international instability, especially to fluctuations in demand, has had both positive and negative effects. It benefited U.S. farmers as world demand strengthened relative to supply in the 1970s because the United States is a large contributor to total world grain exports. However, as weak demand and oversupply developed in the 1980s, falling purchases of U.S. grains were directly reflected in decreased U.S. farm prices and incomes. The populist response to this growing interdependence has been to turn inward, seeking adjustments through supply controls and export barriers.

An inward-looking view of American agriculture is consistent with earlier forms of populism, which historians have characterized as isolationist and at times even xenophobic. In the last part of the 19th century, American farmers were utterly dependent on railroads that shipped grain from newly opened lands to market. Often financed by outside capital, the railroads became natural targets of those who feared that "foreign interests" sought to manipulate and control the farmer. In a sectional sense, the Midwest and South found in populism a true difference with the outward-looking, trade-dependent Eastern Seaboard. To the East dwelled, as one populist phrase had it, "the plutocrats, the aristocrats and all the other rats". This isolationist

attitude, which the historian Richard Hofstadter has called the "paranoid style" in American politics, contains a strong flavour of "America-first". In agriculture, it is fed today by the gnawing suspicion that America is no longer first, and is slipping further behind in the international competitive race.

Deflationary Price Movements

Today's farm economy is experiencing severe declines in crop, land and farm equipment prices. Current world grain supplies are so huge, and so far in excess of demand, that chronic deflationary pressures are projected by many analysts to continue into the indefinite future. In reaction, the Harkin Plan calls for commodity price-fixing to hold crop prices well above world levels. Since administered prices at these levels will encourage additional production and yield increases both at home and abroad, it is likely that more and more acreage will need to be retired over time if domestic prices are to be supported.

In the face of deflationary commodities price movements, many have argued that more inflation would be a good thing. Inflation is the friend of the debt and land holder, and American farmers hold plenty of both. This view also has its roots in the populism of 100 years ago. Then, the debate revolved around silver coinage, immortalized in William Jennings Bryant's famous "Cross of Gold" speech. From 1792 to 1873 the United States was on a bimetallic standard, with both gold and silver dollars as legal tender. In 1873, with silver scarce and the majority of nations adopting a gold standard, silver was demonetized at the behest of trade-oriented interests, mostly in the East. Silverites, joined by advocates of paper currency (Greenbackers) decried the "Crime of 73" as a conspiracy hatched by a cabal of English, Jewish and Wall Street bankers. "Free silver" was the cry of the indebted, based on the view that agriculture was especially victimized by a currency fixed only to gold.

This line of argument proved especially popular in the silver mining states of the West. But its real appeal lay in the agrarian sector, where falling crop and land prices made an inflationary monetary policy highly attractive. William Harvey's 1894 pamphlet *Coin's Financial School*, employed young "Professor Coin" as the imaginary protagonist of a united silverite policy. Silver, according to the professor, "was so much handled by the people

and preferred by them, that it was called the people's money. Gold was considered the money of the rich." Interestingly, monetary recovery ultimately came not from increased silver coinage, but from increased gold production in the last years of the 19th and first years of the 20th century.

Today's Neopopulism retains an implicit bias in favour of monetary expansion and inflation, although without its bimetallistic edge. Its appeal is the same. Indeed, the relationship between export market declines and deflation in land, equipment and other input prices is striking. The relationship, of course, is related in part to agricultural trade policies. When target prices and income deficiency payments were introduced by the Agriculture and Consumer Protection Act of 1973, the policy regime of the United States changed to the form under which it has largely continued to operate. In essence, the United States accumulates inventories in periods of excess supply and reduces them in periods of excess demand. As "stock manager to the world", it therefore absorbs a disproportionate share of world price instability. As its dependence on world trade in agriculture has grown, it would be natural to expect this openness to be transmitted to input prices and quantities. The market for land in an open, trade-dependent agricultural sector will be directly affected by export demand. If this holds true for other inputs, then the derived demand relationship can be used to explain the impact of exports on input markets and the agricultural sector as a whole.

In the 1970s, increasing U.S. exports of wheat, corn, and soybeans were accompanied by increasing land values. When land values increase, the return required to justify the purchase of this input must also rise, creating incentives for more intensive land use. In the 1980s, land prices have fallen by over 50 per cent in the most export-dependent regions of the nation including the Corn Belt and the Great Plains (Figure 1). As land values have fallen with weak export markets, the incentive to farm the land intensively also has been reduced. This has caused declines in the demand for a variety of agricultural inputs, including fertilizer, chemicals, seed, and farm equipment. Inventories of these non-land inputs have been cleared by bankruptcy, business consolidations, and falling prices.

Domestic consumption of all fertilizer in the

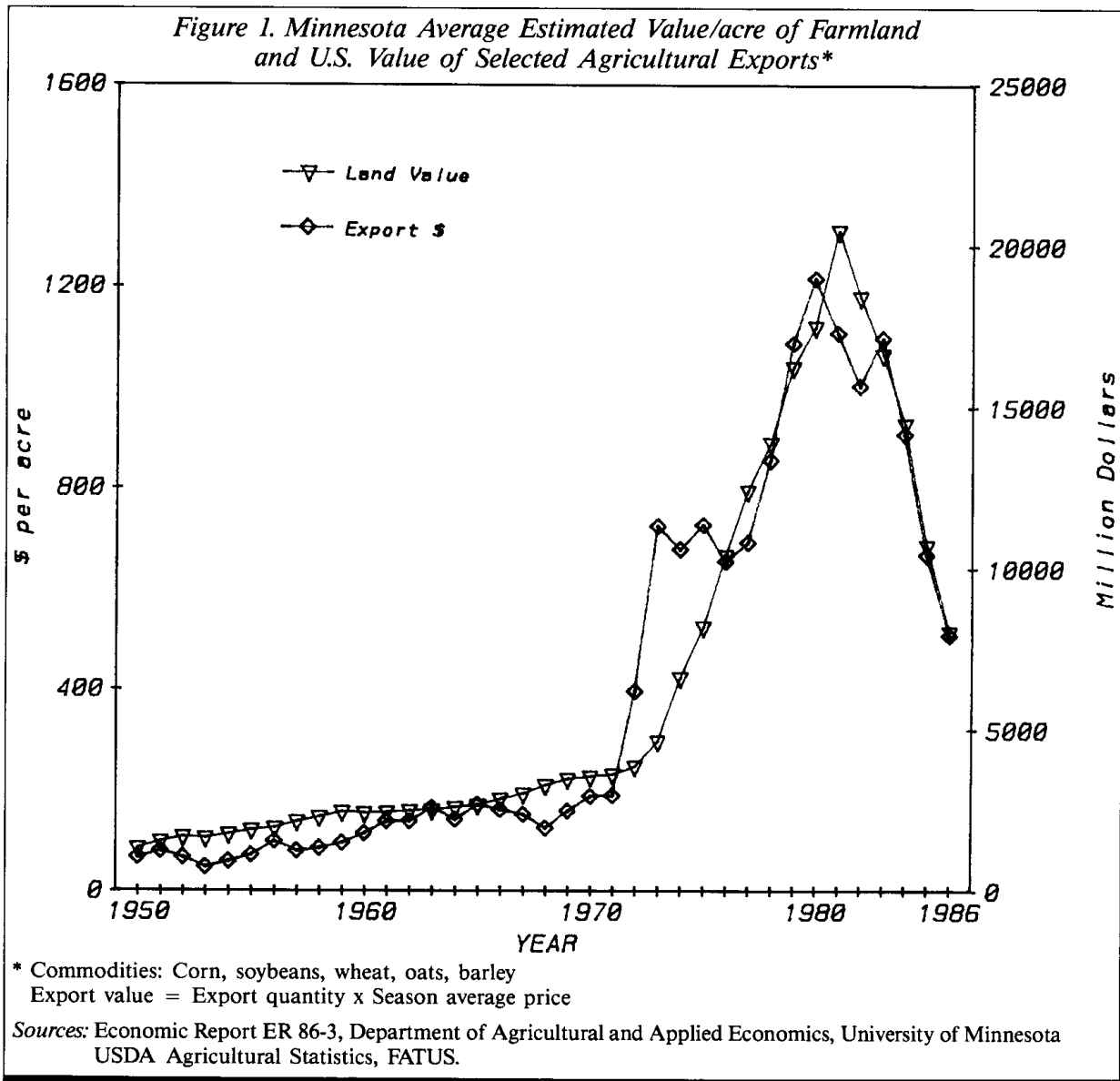
1986/87 year is projected to be down 20 per cent from its peak in 1980/81. Farm machinery expenditures have fallen from a peak of US\$10,000 million in 1981 to an estimated US\$4,500 million in 1987, a 55 per cent drop. Land inventories have been absorbed at huge losses by commercial banks, the Farm Credit System, and the federal government through the Conservation Reserve Program and the Acreage Reduction Program of the Food Security Act of 1985. If this argument is accurate, then as long as export demand remains weak, input inventories in U.S. agriculture will continue to accumulate or to fall in price through the derived demand linkages described above.

Financial Stress in Agriculture

International market forces together with deflationary commodities prices are joined by a third force explaining the appeal of populist rhetoric in American agriculture. To falling exports and crop and land prices must be added the fact that real interest costs on farm debt escalated with dizzying speed from 1980 to 1985, and have moderated only slightly since. The reason these costs rose in real terms was primarily deflation.

Monetary policies to control inflation proved successful enough to switch farm borrowing from a paying proposition for many in the 1970s to a financial disaster in the 1980s. In 1979, borrowing costs were actually negative after accounting for inflation, and American farmers took on ever larger amounts of debt. But as inflation fell (along with crop and land prices), many farmers who had borrowed to expand their operation to meet export demand that never materialised were left hanging. Although interest rates have declined in the economy as a whole, the riskiness of the farm sector has kept real farm borrowing costs 2-3 percentage points above those in the non-farm sector. The height of this spread in rates coincided, in 1985, with the most strident calls for a moratorium on farm foreclosures as a way of "stopping the clock", together with general attacks on bankers and lending institutions.

In this sense, international markets, deflation, and financial stress are three dimensions of a vice which has squeezed value, capital, and people out of an overheated agriculture. Farm foreclosures, resulting calls for debt moratoria, and anti-banker sentiment are the visible effects of these complex forces.



In the late 19th century, United States agriculture did not overheat due to a short-lived export bonanza. Rather, a domestic land boom, stimulated by Western settlement, proved the culprit. Then as today, settlers on homesteads in the West needed capital for machinery, fencing and seed, and they mortgaged their land to get it. This was encouraged by banks and railroads. In Beatrice, Nebraska, a real estate firm's slogan read:

Beatrice is not dead or dying,
 Real estate is simply flying,
 He who buys today is wise,
 For Beatrice dirt is on the rise.

When the crash in land values came, large numbers of farmers (including the senior author's own ancestors, who had left Wisconsin to homestead in the Dakotas)

walked away from mortgaged land poorer but wiser. To farmers in such financial stress, the silverite argument as well as calls for debt moratoria and the notion of a "bankers' conspiracy" took on added appeal. Return to the gold standard appealed because farm debt became worth more to creditors with each passing year. Moratoria were argued then, as now, as a way to stop the clock and to "punish" banking interests.

These historical parallels help explain the current appeal of Neopopulism in American agriculture, which is indeed rooted in ideas of 100 years ago. As a reaction to economic and social forces, Neopopulism is understandable. But is it a realistic basis for policy, or will it sink, like its precursor a century ago, in a sea of political and economic contradictions?

The New Agriculture

America today is a trading nation. When trade surpluses become trade deficits, jobs are lost and Americans (and their elected representatives) react. Yet in the last 25 years, America's overall trade balance has been supported by hefty surpluses in agriculture, stimulated by productivity increases greater than in any other sector of the American economy of comparable size. On balance, agriculture has gained far more from trade than it has lost. Its defining feature, as our colleague Vernon Ruttan has noted, is that "it is one of our largest remaining world class industries".

Although America is a trading nation, and agriculture has been one of our major trade success stories, it is not an agricultural nation in the sense that it was a century ago. While statistics on the small number of farmers in relation to the population (44 per cent in 1880, 2.7 per cent in 1980) are often cited, less obvious is the fact that the standard of living enjoyed by American farmers results largely from purchased products from outside of agriculture, and the ability to sell crops into a complex set of marketing channels which move this produce around the world. It is the integration of the U.S. agricultural system with international markets, and with products and processing channels beyond the farm gate, that makes American farmers competitive in the international marketplace.

In addition to this international and off-farm integration, American farmers are increasingly linked to the financial sector. Financial and commodities market linkages put individual farmers in a symbiotic (if uneasy) relationship with their lenders as never before. On a more global scale, the capacity of Third World countries (the largest growth market for U.S. farm exports) to repay financial obligations to international lenders makes farm exports and hence farm prices a direct function of the international cost of borrowing.

Trade, marketing, and financial integration are all features of what might be called the "New Agriculture" of the late 20th Century. Unfortunately, it does not appear that the plan offered by the Neopopulists fits well into this world. It is, rather, a reactionary attempt to turn back the clock. Its lack of fit, curiously, occurs in each category that gives it impetus.

First, and most obvious, is the conflict

between increasingly open international trade in agriculture and the inward-looking agenda represented by the Harkin Plan. The gains from trade for agriculture and the American economy as a whole have been large, and have supported an agricultural sector which would be much smaller in the absence of these export markets. Despite large declines in U.S. farm exports over the last five years, more than half of the corn, wheat and soybeans produced in the Upper Midwest continue to flow into the international market. To shut down production in order to keep domestic prices high is, in effect, to surrender these markets to American competition in Argentina, Australia, Brazil, and the European Community. Profit-maximizing processors and purchasers of grains both here and abroad would rapidly turn to these other sources. For this reason, the Harkin Plan is accompanied by provisions for export subsidies which would make up the difference between domestic and world prices. These subsidies, besides triggering retaliation, would be very expensive on a volume basis unless the amount exported was small. This would compound and magnify the folly of current export subsidies, increasing the likelihood of an all-out trade war. Moreover, it is doubtful that the Harkin Plan could succeed over the long run in raising domestic prices through production controls, which will be frustrated by yield-improving technology.

Because international trade is a key element supporting farm income, increased government payments alone are incapable of supporting this income or (indirectly) land prices. If policies are implemented that reduce U.S. agricultural exports, we can expect continued increases in our overall trade deficit, and continuing downward pressure on farmland values.

A second conflict between Neopopulism and the New Agriculture arises from an inflationary agenda in a deflationary period. In response, domestic price-fixing by the government or renewed inflation are simply inadequate. While problems of farm debt, driven by continued interest cost burdens, make understandable a desire for renewed inflation, there are better ways to deal with the farm credit crisis than an attempt to float all boats on an inflationary froth. As noted above, farmers are increasingly dependent on purchased inputs of seed, fertilizer, equipment

and consumer goods. Combined with massive crop surpluses and large quantities of land in excess supply, inflation will not have an equal effect on prices paid and prices received by farmers. Many farm costs (including interest costs) are likely to rise with inflation before crop prices or land values do, placing additional burdens on the farm economy at an especially inopportune time.

Just as higher prices purchased through production controls are unlikely to provide a long term substitute for growth in world demand, so inflation is unlikely to stimulate recovery without real underlying growth in farm productivity and programs targeted specifically at reductions in financial stress.

The third and final malady afflicting the Neopopulist program is its hostility to the financial sector on which agriculture increasingly depends. It took remarkable financial acumen to save New York from fiscal insolvency. A similar level of financial sophistication will be necessary to deal with the farm financial crisis, which has both domestic and international dimensions. Attempts to stop the clock through farm (or international) debt moratoria may punish bankers, but these bankers will in turn punish farm and other borrowers by rationing and raising the cost of credit. This form of self-abuse, ironically, provides a short-run organizing base for populist claims, since it would unquestionably make financial conditions in agriculture worse.

In both domestic and international credit markets, debt rescheduling is urgently called for. This rescheduling will require cooperation between farmers, farm lenders, and the financial community. In Minnesota and other states, programs have helped reduce farm interest burdens in return for bank commitments to share the costs. Similar programs are possible at the national and even the international level, if the mutual interests of the parties can overcome recrimination and blame-laying.

In the final analysis, Neopopulism lacks the coherence necessary to provide a meaningful policy alternative. Perhaps, as Oxford's Isaiah Berlin put it, populism has a "Cinderella complex". In his own attempt to define it, Berlin wrote that "there exists a shoe — the word populism — for which somewhere there exists a foot". But Berlin was not so sure: "There are all kinds of feet which it nearly fits,

but we must not be trapped by these nearly fitting feet". If Neopopulism is indeed the old shoe we have described, then it fits the feet of the modern farmer and modern American political life uncomfortably, if at all.

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